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ITEM NO: E-HW

DATE: 2 JULY 1974

FORMATION OF ICELANDIC GOVERNMENT MAY BE SEELOW SUBJECT:

THE US EMBASSY IN REYKJAVIK ESTIMATES THAT IT MAY TAKE FOUR TO SIX WEEKS TO FORM A NEW COALITION GOVERNMENT BECAUSE OF DIFFERENCES THAT MUST FIRST BE RECONCILED. THE MOST LIKELY GOVERNMENT STILL SEEMS TO BE ONE THAT WOULD INCLUDE THE INDEPENDENCE AND PROGRESSIVE PARTIES, ALTHOUGH THE SOCIAL DEMOCRATS COULD ALSO PARTICIPATE. PROGRESSIVE PARTY SPOKESMEN HAVE SAID THE PARTY INTENDS TO DEMAND CONCESSIONS ON BOTH ECONOMIC AND DEFENSE ISSUES AS THE PRICE FOR COOPERATING WITH THE INDEPENDENCE PARTY. THE PROGRESSIVE, HOWEVER, AS HEAD OF THE OUTGOING COALITION, WOULD LIKE TO STAY IN POWER.

PRIME MINISTER JOHANNESSON SUBMITTED HIS RESIGNATION YESTERDAY AND WAS IMMEDIATELY ASKED TORM A CARETAKER GOVERNMENT.

DATE: State Department review completed offic: UNIT:

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